HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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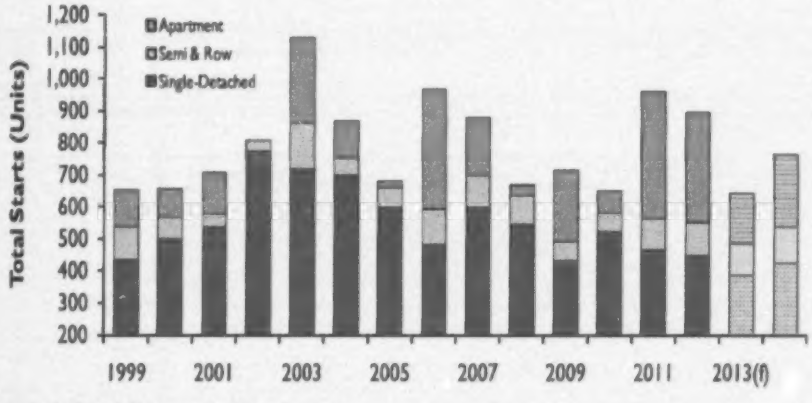
Market at a Glance

- Kingston's existing home sales will ease in 2013 and will post modest growth in 2014.
- Kingston's existing home average price to increase by 1.2 per cent this year and 1.6 per cent in 2014. This growth rate reflects an expected continuation of balanced market conditions.
- At 645 units in 2013 and 765 in 2014, Kingston's total housing starts will be lower than the notable starts posted in 2012. Reduced spill-over demand from the existing home market and increased inventory will dampen residential construction activity.

Figure 1

Kingston's Total Housing Starts to Moderate



Source: CMHC (Starts Survey); f = CMHC Forecast

The forecasts included in this document are based on information available as of April 26, 2013.

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Resale Home Market

Existing home sales to moderate in 2013

Existing home sales weakened in the first quarter of this year, but are expected to stabilize in the busy spring market and post similar numbers in the latter half of 2013 relative to prior years.

Kingston's housing market has benefited from stable mortgage carrying-costs that have supported demand for home ownership, keeping price growth stable at around the rate of inflation.

In 2014 expect to see a modest boost to sales, as employment growth provides additional support to home buying activity. Kingston's annual existing home sales are projected to drift around levels consistent with historic norms.

Average resale price growth to remain positive

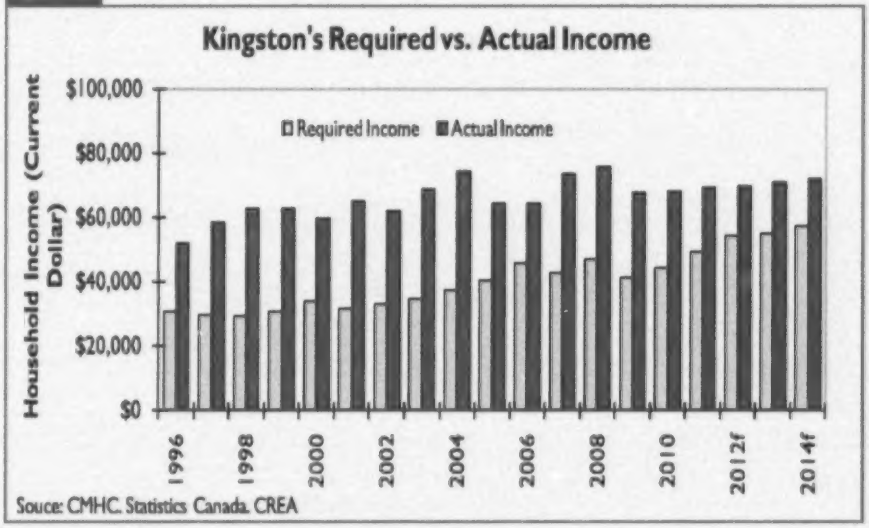
Price increases in Kingston can be expected to grow at a slower pace in the next couple of years. Given the outlook for key housing market drivers, such as employment, incomes and mortgage rates, our expectation is that the average annual resale price will increase by 1.2 per cent in 2013 and 1.6 per cent in 2014.

Our modest forecast for price growth is owing to an anticipation of a sustained balance between supply and demand in the Kingston housing market. The sales-to-new listings ratio, which is akin to a market thermometer, is expected to loosen slightly, yet remain just under the halfway mark. Historically, a reading at this level has meant neither a sharp price increase, nor decrease. As well, it signals a market that has adequate supply with supportive demand.

In addition, factors such as employment, incomes and property rents are pointing to strong housing valuations. The average two-bedroom rent in Kingston rose last year by 3.1 per cent and is projected to increase furthermore; thus increasing the explicit value of housing services. At the same time, prices will receive

Figure 2

Figure 3



reinforcement from rising incomes and employment over the next two years as Kingston's economy grows, which is discussed in more detail below.

New Home Market

Total housing starts expected to balance out

Kingston's total housing starts are projected to decline this year and move better in line with historic averages. This will largely be driven by a reduction in the number of new apartment units constructed; however, single-detached units will see moderation as well. 2014 will see a rebound as improving economic fundamentals increase demand for housing.

Single-detached starts will slow this year as builders satisfy demand from existing inventories. The number of newly completed and unoccupied homes has edged higher in recent years, yet remains low by historical comparisons. Simultaneously, the inventory of homes for sale in the resale market has increased compared to a year ago. This lingering supply will result in softer spill-over demand for new homes. Builders' pull-back on construction this year will help the Kingston housing market adjust to long-term demographic requirements.

Rental apartment starts pause in 2013

Developers are likely to scale back apartment construction in 2013, as the number of units under construction has reached record levels. In 2014, we can expect an increase as higher rents encourage investment, and employment growth generates household formation.

In recent years, the construction of large multi-unit buildings has been encouraged by low vacancy rates. In 2013, Kingston will see a gradual increase in vacancies, which will discourage these larger projects. Moving into 2014, the vacancy rate will tighten as demand catches up and new apartment completions are absorbed. This will in turn create a more favourable environment for larger projects, particularly in niche markets like student or adult-lifestyle developments.

Row starts to maintain a high share of starts

Although far from being the most popular housing format in Kingston, row houses have seen an increase in their share of housing starts recently. This is no passing fad, and should persist over the next two years. Forecasted increases in single-detached home prices and mortgage rates will add to mortgage carrying-costs, which will shift demand towards higher density housing. New home buyers, who are particularly affected by cost pressures, will continue to choose row housing as an affordable entry point into the homeownership market.

Economy

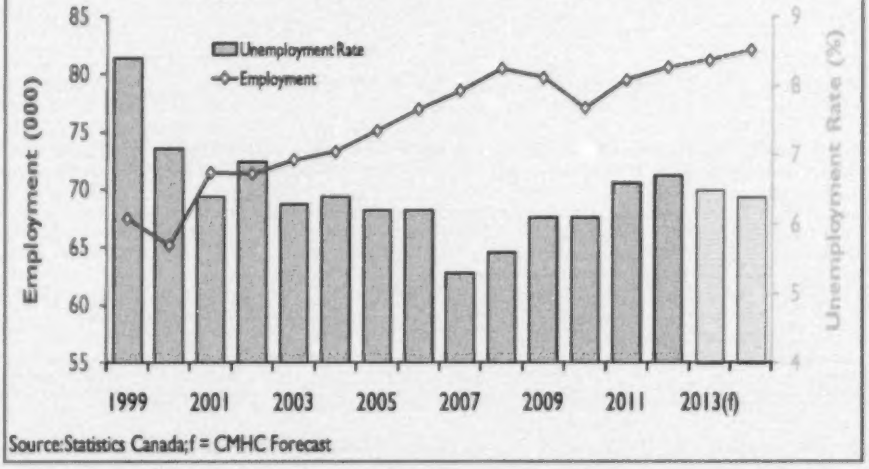
Kingston's employment growth to continue

Ontario's economy continues to expand, albeit at a slower pace this year. Growth had previously been driven by consumer spending, but will be increasingly directed by business investment and exports in the next two years. Additionally, government expenditures are not expected to have a significant influence on economic growth within this time period.

As a result of this provincial outlook, Kingston's employment growth will see a slowdown in 2013 and 2014. The private sector will have the largest influence on job gains this year, as public sector employment levels remain stable. Encouragingly, employment growth in the next two

Figure 4

Employment Growth to Slow but Remain Positive



Source: Statistics Canada; f = CMHC Forecast

years will be enough to bring the unemployment rate down to 6.5% in 2013 and 6.4% in 2014.

Provincial budget signals stable health care and education employment

Kingston's employment picture is disproportionately affected by what happens in the health care and education sectors. In 2012, a combined 28 per cent of local employment was in these fields, compared to 19 per cent provincially. Therefore, these industries will have an influence on the magnitude of employment growth in the next two years.

The latest provincial budget, introduced this spring, gives a sense of how these sectors will perform in the near-term. It included measures to restrain the growth in health care costs through containment of hospital's funding, which will put pressure on the health care sector's ability to create new positions. Notably, the budget did outline continued funding for an upgrade to Kingston's health care infrastructure, specifically the Providence Care Centre.

In regards to post-secondary funding, the budget did not outline any significant new changes that would affect this sector's employment. Nevertheless, it did provide a small increase in funding for expanding enrolments this year, but also expressed a need to limit spending growth in the future. In 2013 and 2014 health care and education are expected to remain stable, but offer little support to employment expansion.

Kingston to benefit from growth in U.S. consumer spending

The first quarter of 2013 saw the U.S. expansion in real GDP hold firm at 2.5%, most notably driven by consumer spending and residential investment. With improvements in household balance sheets and improving labour markets, this is a trend that is likely to continue into 2014. A strengthening U.S. economy will contribute to growth among Ontario's export sector, and Kingston will benefit through stronger demand for its locally manufactured goods.

Kingston migration to slow

In the next two years, migration into Kingston will be slightly lower in comparison to 2012, but will remain supportive of housing. This outlook is derived from a softer outlook for the local job market, which plays a significant factor in attracting migrants. Foreign immigrants tend to come to Kingston as their second destination from within Ontario upon receipt of employment. Offsetting some of this economic migration will be an increase in the number of foreign students attending one of Kingston's post secondary institutions.

Mortgage Rate Outlook

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Forecast Summary Kingston CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	522	467	449	390	-13.1	425	9.0
Multiples	131	492	447	255	-43.0	340	33.3
Semi-Detached	24	28	12	20	66.7	30	50.0
Row/Townhouse	37	70	91	75	-17.6	85	13.3
Apartments	70	394	344	160	-53.5	225	40.6
Starts - Total	653	959	896	645	-28.0	765	18.6
Average Price ($):							
Single-Detached	277,517	288,320	296,178	300,400	1.4	303,200	0.9
Median Price ($):							
Single-Detached	267,400	282,000	289,900	294,800	1.7	296,600	0.6
New Housing Price Index (% chg) (Ont.)	2.4	3.6	4.1	n/a	-	n/a	-
Resale Market							
MLS® Sales	3,209	3,179	3,321	3,130	-5.8	3,225	3.0
MLS® New Listings	6,286	6,516	6,819	7,080	3.8	7,010	-1.0
MLS® Average Price ($)	249,509	261,967	270,275	273,500	1.2	277,800	1.6
Rental Market							
October Vacancy Rate (%)	1.0	1.1	1.7	1.9	0.2	1.6	-0.3
Two-bedroom Average Rent (October) ($)	935	965	1,005	1,035	3.0	1050	1.4
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	77,100	79,500	80,600	81,150	0.7	82,100	1.2
Employment Growth (%)	-3.3	3.1	1.4	0.7	-	1.2	-
Unemployment rate (%)	6.1	6.6	6.7	6.5	-	6.4	-
Net Migration [1]	1,001	1,189	1,520	1,000	-34.2	1,150	15.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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